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U.S. DISTRICT COURT  
N.D. OF ALABAMA

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF ALABAMA  
SOUTHERN DIVISION

UNITED STATES OF AMERICA       )  
  )  
v.                                        )  
  )  
CATHERINE FOWLER                 )

RULE 11(f) FACTUAL BASIS FOR GUILTY PLEA

COMES NOW the United States of America through its undersigned counsel, for the purpose of satisfying the requirements of Federal Rule of Criminal Procedure 11(f), submits the following Factual Basis in support of the guilty plea of **CATHERINE FOWLER**

HealthSouth

1. HealthSouth Corporation ("HealthSouth") was formed in 1984. HealthSouth is the nation's largest provider of outpatient surgery, diagnostic imaging, and rehabilitative health care services with approximately 1800 locations in all 50 states and abroad. Since approximately 1988 until March 2003, HealthSouth's common stock was listed on the New York Stock Exchange. Many of its executives, including its then Chief Executive Officer ("CEO"), either owned shares in HealthSouth, or owned options to such shares. The CEO, and others, were also compensated in part by bonuses. The bonuses depended on how well HealthSouth performed financially.

2. HealthSouth, like other companies whose shares were publically traded, generated and publicized earnings expectations. Stock market analysts did the same. Whether a company met, exceeded, or failed to meet such expectations, was often a factor that influenced the price of its shares.

3. Since in or about 1986, when it made its Initial Public Offering (IPO), HealthSouth has been an issuer of a class of securities registered under Section 12 of the Securities Exchange Act of 1934 required to file quarterly and annual statements (Forms 10-Q and Forms 10K) under said Act with the Securities Exchange Commission ("SEC"). These statements reported HealthSouth's earnings, as well as the value of its assets and liabilities. These reports were available to the public which used them to determine whether HealthSouth met the aforesaid expectations.

4. Under provisions of the federal securities laws and the regulations promulgated thereunder, HealthSouth was also required to make and keep books, records and accounts that accurately and fairly reflected the transactions and dispositions of the company's assets and to devise and maintain a system of internal accounting controls sufficient to provide – (i) reasonable assurances that the company's transactions were recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") and other criteria applicable to such statements and to maintain the accountability of assets; and (ii) reasonable assurances that the recorded accountability for assets was compared with the existing assets at reasonable intervals and appropriate action was taken with respect to any differences

### The Conspiracy.

5. Beginning at least in 1996, the CEO, other Senior Officers and members of HealthSouth's accounting staff including, from time to time, Michael Martin, William Owens, Aaron Beam, Malcolm McVay, Weston Smith, Emery Harris, Ken Livesay, Cathy Edwards, Virginia Valentine, Kay Morgan, Angela Ayres, Richard Botts, Jason Brown and others, engaged in a conspiracy and scheme and artifice to, among other objectives, defraud investors by artificially inflating HealthSouth's earnings and earnings per share, make false entries in HealthSouth's books and records, file false statements with the SEC and commit mail and wire fraud.

6. HealthSouth's CEO and other Senior Officers reviewed monthly and quarterly preliminary reports showing HealthSouth's true and actual financial results, which usually showed that HealthSouth had not met earnings per share expectations. These Senior Officers would then direct HealthSouth's accounting staff to manipulate HealthSouth's books, accounts and records to ensure that HealthSouth's earnings per share number met or exceeded those expectations.

7. Methods to increase earnings included making entries to reduce offsets against revenues or to reduce expenses. Corresponding fraudulent entries were made to increase assets and decrease liabilities on HealthSouth's Balance Sheet. Such entries were made in, among other accounts, HealthSouth's (1) Property, Plant and Equipment ("PP&E") accounts; (2) cash accounts; (3) inventory accounts; (4) intangible asset (goodwill) accounts; and (5) investment portfolio.

8. These entries caused the quarterly and annual financial statements filed with the

SEC for the years from before 1996 through 2002, that is, Forms 10-Q and Forms 10K, to be materially false. The cumulative overstatement of assets summed more than a billion dollars. Some of these financial statements were transmitted electronically from Birmingham, Alabama to Washington, D.C., to be filed with the SEC.

9. The CEO and other conspirators benefitted from the conspiracy by receiving salaries, bonuses, and an increased value in their stock and stock options. The investing public suffered to the extent they paid for shares whose value was inflated by the aforesaid conspiracy.

10. In 2001, after HealthSouth sold approximately \$27 million in the stock of another publicly traded company (the “publicly traded company”), which was held in HealthSouth’s investment portfolio. The Senior Officers failed to, and did not record the stock sale on HealthSouth’s books. Thus, at year end 2001, HealthSouth’s books and records fraudulently represented that the stock was an asset in HealthSouth’s investment portfolio, even though the stock had been sold.

11. HealthSouth’s Form 10-K for the year ended December 31, 2001, which was filed with the SEC in Washington, D.C., included in the line item for other assets more than \$27 million in the stock of the publicly traded company, when, in truth and fact, HealthSouth had sold that stock in 2001.

12. Subsequently, the Senior Officers agreed upon a plan to deceive HealthSouth’s auditors into believing the stock of the publically traded company was sold in 2002, thereby covering up the past year’s fraud.

### **The Defendant**

13. Defendant **CATHERINE FOWLER** was employed at HealthSouth Corporation (“HealthSouth”) since May 1994. Defendant **FOWLER** worked in the treasury division from the beginning of her employment until March 19, 2003

### **Bogus Stock Sale Documents**

14. In or about the spring or summer of 2002, defendant **FOWLER** learned of, and knowingly and voluntarily joined in, the above-described conspiracy and scheme and artifice.

15. Defendant **FOWLER** participated in a scheme to create a paper trail to provide to HealthSouth’s auditors which would falsely and fraudulently give the appearance that HealthSouth had sold its stock in the publicly traded company in 2002, when, as the conspirators well knew, the stock had been sold for more than \$27 million in 2001.

16. Defendant **FOWLER** attended at least one meeting with one or more of the Senior Officers where the participants discussed the scheme to show that the stock sale took place in 2002 and the need to create a paper trail to *make* this alleged 2002 stock sales appear legitimate.

17. At the meeting, one or more of the Senior Officers instructed another co-conspirator to create a spreadsheet which would falsely and fraudulently show that the stock of the publicly traded company was sold in small blocks over a period of several weeks in 2002. The co-conspirator, would, and did, provide defendant **FOWLER** with the amounts of the purported stock sales.

18. Defendant **FOWLER** was instructed to cause a series of wire transfers from HealthSouth’s investment account at Smith Barney in New York, New York to another

HealthSouth operating account at AmSouth Bank in Birmingham, Alabama in amounts matching those provided by the other co-conspirator. The wire transfers to be initiated by defendant **FOWLER** had no purpose other than the generation of back-up documentation which would be, and was, provided to HealthSouth's auditors in support of the bogus stock sale transactions.

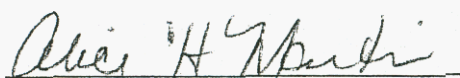
19. On or about the following dates defendant **FOWLER** caused wire transfers in the following amounts from HealthSouth's Solomon Smith Barney brokerage account, number 866-00975-13779, in New York, New York to a HealthSouth operating account at AmSouth Bank, number 50214357, in Birmingham, Alabama:

- (1) July 19, 2002 in the amount of \$2,785,894.60;
- (2) July 22, 2002 in the amount of \$1,890,478.86;
- (3) July 23, 2002 in the amount of \$1,574,500.98;
- (4) July 25, 2002 in the amount of \$2,729,172.48;
- (5) July 26, 2002 in the amount of \$2,085,210.41;
- (6) July 29, 2002 in the amount of \$2,678,099.87;
- (7) July 31, 2002 in the amount of \$1,106,960.48;
- (8) August 1, 2002 in the amount of \$3,012,894.60;
- (9) August 5, 2002 in the amount of \$3,263,798.33; and
- (10) August 6, 2002 in the amount of \$2,618,625.88.

20. Other co-conspirators, directly and indirectly, provided the false and fraudulent stock sale spreadsheet and the documentation of the wire transfers caused by defendant **FOWLER** to HealthSouth's auditors.

21. Defendant **FOWLER** and others, unlawfully, willfully, and knowingly, directly

and indirectly, falsified and caused to be falsified, books, records and accounts which, in reasonable detail, accurately reflected the transactions and dispositions of the assets of HealthSouth including, but not limited to, the records relating to HealthSouth's 2001 sale of approximately \$27 million of stock in another publicly traded company.




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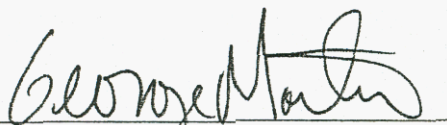


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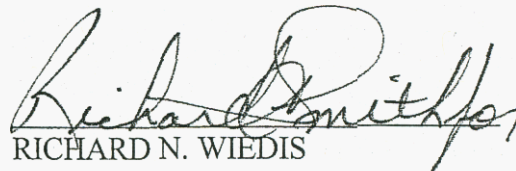
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